

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT

AUDITED FINANCIAL STATEMENTS

June 30, 2018 and 2017



AMATICS
CPA GROUP

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
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INDEPENDENT AUDITORS' REPORT

**To the Board of Directors
Four Corners County Water and Sewer District
Bozeman, Montana**

We have audited the accompanying financial statements of Four Corners County Water and Sewer District ("the District") as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Four Corners County Water and Sewer District, as of June 30, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matter

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with the *Government Auditing Standards*, we have also issued our report dated December 18, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Amatics CPA Group

Bozeman, Montana

December 18, 2018

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
STATEMENTS OF NET POSITION
June 30, 2018 and 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents, unrestricted	\$ 197,090	\$ 370,042
Board designated cash and cash equivalents	2,275,975	1,197,910
Accounts receivable, net	183,093	150,329
Taxes receivable	17,071	15,511
Unbilled service revenue	81,678	91,124
Due from other governments	9,336	48,965
Total current assets	2,764,243	1,873,881
NONCURRENT ASSETS		
Restricted cash and cash equivalents	564,808	467,488
PROPERTY AND EQUIPMENT , net of depreciation	21,917,395	21,008,805
Total assets	\$ 25,246,446	\$ 23,350,174

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 57,971	\$ 28,982
Payroll liabilities	17,623	24,500
Capital lease payable, current	1,415	1,415
Note payable, current	5,896	5,694
Water and wastewater system bonds, current	541,101	451,108
Accrued interest	19,934	16,354
Total current liabilities	643,940	528,053
LONG-TERM LIABILITIES		
Water and wastewater system bonds, noncurrent	21,272,920	21,999,748
Note payable, noncurrent	10,827	16,723
Capital lease payable, noncurrent	2,456	3,871
Total long-term liabilities	21,286,203	22,020,342
Total liabilities	21,930,143	22,548,395
NET POSITION		
Restricted for debt service	564,808	467,488
Net invested in capital assets	82,780	-
Unrestricted	2,668,715	334,291
Total net position	3,316,303	801,779
Total liabilities and net position	\$ 25,246,446	\$ 23,350,174

See the accompanying independent auditors' report.

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

	Years Ended June 30	
	2018	2017
OPERATING REVENUES		
Charges for services	\$ 3,380,408	\$ 3,178,579
OPERATING EXPENSES		
Personnel	454,451	406,569
Accounting	34,767	46,033
Bank charges	1,323	645
Consulting	13,434	4,562
Engineering	49,612	27,140
Insurance	33,016	27,225
Legal fees	32,649	15,701
Licenses and permits	2,713	1,520
Miscellaneous	5,366	4,146
Office supplies	85,432	68,914
Utilities	97,161	67,685
Water and sewer use	603,795	437,680
Total operating expenses	1,413,719	1,107,820
Operating income	1,966,689	2,070,759
NON-OPERATING REVENUE (EXPENSES)		
Interest income	4,852	2,749
Other income	-	237
Depreciation expense	(764,992)	(717,116)
Amortization expense	-	(5,676)
Interest expense	(651,994)	(803,473)
Other expenses	-	(923)
Property taxes levied	815,157	842,138
Total non-operating revenues (expenses)	(596,977)	(682,064)
Contributed capital	1,144,812	-
CHANGE IN NET POSITION	2,514,524	1,388,695
NET POSITION, beginning of year	801,779	(586,916)
NET POSITION, end of year	\$ 3,316,303	\$ 801,779

See the accompanying independent auditors' report.

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
STATEMENTS OF CASH FLOWS**

	Years Ended June 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,357,090	\$ 3,155,893
Payments to employees	(461,329)	(395,723)
Payments to suppliers and agencies	(930,279)	(738,007)
	<u>1,965,482</u>	<u>2,022,163</u>
CASH FLOWS USED BY INVESTING ACTIVITIES		
Acquisition of water and wastewater assets	(528,770)	(168,635)
CASH FLOWS FROM FINANCING ACTIVITIES		
Tax receipts and other income (expense)	853,228	811,924
Interest received on delinquent tax notices	4,852	2,749
Proceeds from issuance of long term debt	-	23,824
Payments on long term debt	(642,529)	(421,505)
Payments on capital lease	(1,416)	(1,416)
Interest paid	(648,414)	(895,966)
	<u>(434,279)</u>	<u>(480,390)</u>
NET INCREASE IN CASH	1,002,433	1,373,138
Cash at beginning of year	2,035,440	662,302
CASH AT END OF YEAR	<u>\$ 3,037,873</u>	<u>\$ 2,035,440</u>
Classified As:		
Cash and cash equivalents - unrestricted	\$ 197,090	\$ 370,042
Board designated cash and cash equivalents	2,275,975	1,197,910
Restricted cash and cash equivalents	564,808	467,488
	<u>\$ 3,037,873</u>	<u>\$ 2,035,440</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 1,966,689	\$ 2,070,759
Adjustments to reconcile operating income to net cash provided by operating activities:		
(Increase) decrease in operating assets		
Accounts receivable	(32,764)	(21,276)
Unbilled service revenue	9,446	(1,410)
Increase (decrease) in operating liabilities		
Accounts payable	28,989	(36,756)
Payroll liabilities	(6,878)	10,846
	<u>(1,207)</u>	<u>(48,596)</u>
Net cash provided by operating activities	<u>\$ 1,965,482</u>	<u>\$ 2,022,163</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS:		
Non-cash transactions:		
Capital contributed	\$ 1,144,812	\$ -

See the accompanying independent auditors' report.

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Four Corners County Water and Sewer District (the District), have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Reporting Entity

The Four Corners County Water and Sewer District ("the District") was created on April 15, 2003, voted by the residents and landowners within the designated boundaries of the water and sewer district in the unincorporated area known as Four Corners located within the boundaries of Gallatin County, Montana pursuant to Title 7, Chapter 13, Parts 22 and 23 of the Montana Code Annotated. The purpose of the District is to provide a public water supply and distribution system and a wastewater collection and treatment facility within its boundaries, and to do all things necessary and proper to maintain and operate these facilities as required by law and bylaws of the District.

In determining the financial reporting entity, the District complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and 34*.

Measurement Focus and Basis of Accounting

The term "measurement focus" is used to denote what is being measured and reported in the District's operating statements. The District is accounted for on the flow of "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets, deferred outflows of resources and liabilities (whether current or noncurrent), deferred inflows or resources associated with their activities are reported and equity is reported as net position.

The term "basis of accounting" is used to determine when a transaction or event is recognized on the District's financial statements. The District uses full accrual basis accounting, with revenues recorded when earned and expenses recorded when incurred, even though actual payment, billing or receipt may not occur until after the period ends.

Pursuant to GASB Statement No. 62, the District follows all GASB pronouncements and may apply Financial Accounting Standards Board (FASB) pronouncements for accounting issues not addressed by GASB literature.

Cash and Investments

The District is authorized by statute to invest in time and savings deposits with a bank, savings and loan association, or credit union in the state. In addition, it may also invest in obligations of the United States Government, securities issued by agencies of the United States, repurchase agreements, and the State Short-Term Investment Pool (STIP). As of June 30, 2018 and 2017, the District had no investments. The District does not have a policy regarding credit risk and interest rate risk in relation to the District's deposits. For the purpose of the cash flow statement, cash is considered to be cash on hand, deposits in demand accounts and money market accounts.

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash

Certain resources are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants and they are maintained in separate bank accounts.

Revenue and Expenses

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are water and wastewater user charges. Revenue from user charges and sales of services is recognized as the related services are provided. Refunds to customers are charged to income in the period in which those refunds are paid. Operating expenses include the costs associated with the conveyance of water and wastewater, treatment or wastewater, and administrative expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Accounts Receivable

The District's accounts receivable relate to utility services provided to the customers of the District. Allowance for uncollectible accounts is determined by the Board.

Unbilled Service Revenue

Unbilled service revenue consists of service revenue earned but not yet billed.

Tax Revenue

Property taxes levied in accordance with Title 7, Chapter 13, Part 23, Montana Code Annotated. The District provides the amount of taxes to levied on each applicable property submits this information to the County Treasurer by September 15. Real property taxes are generally billed in October and are payable one half by November 30 and on half by May 31. After these dates, taxes and assessments become delinquent and become a lien on the property. Taxes and assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month from the time of delinquency until paid plus a penalty of 2%. Real property on which taxes and assessments remain delinquent and unpaid may be sold at tax sales.

Capital Assets

The District's capital assets are recorded at historical cost or estimated historical cost if actual cost is unavailable. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life is not capitalized. Donated capital assets, including developer-constructed infrastructure, are recorded as assets on the books of the District and depreciated accordingly. The recorded value of the asset is recognized as income in the year of conveyance. Capital assets of the District are depreciated or amortized using the straight-line method over the following estimated useful lives:

Utility infrastructure system	20 years
Utility piping system	40 years
Furniture, machinery, equipment	3-5 years

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Exempt Status

The District is a municipal corporation and, therefore is not liable for federal and state income taxes pursuant to Internal Revenue Code 501(c)(1).

Capital Contributions

Contributions are recognized in the statement of revenues, expenses and changes in net position when received. Contributions include developer contributed utility systems.

Net Position

Proprietary fund net position is classified in the following categories:

Net investment in capital assets – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus capital asset related deferred outflows of resources less capital asset related deferred inflows of resources related to those assets.

Restricted net position – consists of assets that are restricted as a result of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other government or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – all other net position is reported in this category.

The District's policy is to apply restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted components of net position are available.

Budget

The District is not legally required to adopt a budget; therefore, budgetary comparison information is not included in the District's financial statements.

Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Cash	\$ 94,665	\$ 251,393
Money market account	2,919,937	1,768,166
Undeposited funds	<u>23,271</u>	<u>15,881</u>
	<u>\$ 3,037,873</u>	<u>\$ 2,035,440</u>

The District maintains cash balances in separate bank accounts at the same financial institution. Account balances are insured up to \$250,000 by the FDIC. The balances in excess of the federally insured limits totaled \$2,664,603 and \$1,859,232 for the years ended June 30, 2018 and 2017, respectively.

A portion of unrestricted cash that is held in the money market account is assigned for future additional expenditures on the wastewater system infrastructure in the amount of \$76,384 and \$101,384 for the years ended June 30, 2018 and 2017, respectively.

3. ACCOUNTS RECEIVABLE

As of June 30, 2018 and 2017, the outstanding accounts receivable balances and related allowance for uncollectible accounts are as follows:

	<u>2018</u>	<u>2017</u>
Accounts receivable	\$ 183,093	\$ 182,794
Allowance for uncollectible accounts	<u>-</u>	<u>(32,465)</u>
	<u>\$ 183,093</u>	<u>\$ 150,329</u>

4. RISK MANAGEMENT

The District faces a considerable number of risks of loss, including a) general liability, b) auto liability (non-owned/hired), and c) professional liability (i.e. errors and omissions). The District utilizes commercial insurance policies to cover these risks. The Board believes such coverage is sufficient to preclude any significant uninsured losses to the District.

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

5. CAPITAL ASSETS

Capital assets of the District for the years ended June 30, 2018 and 2017, consisted of the following:

	<u>Balance, June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2018</u>
Water and wastewater infrastructure	\$ 6,665,762	\$ 1,328,860	\$ -	\$ 7,994,622
Water and wastewater piping	15,372,077	-	-	15,372,077
Construction in progress	-	344,722	-	344,722
Vehicles	33,308	-	-	33,308
Office equipment	10,869	-	-	10,869
	<u>22,082,016</u>	<u>1,673,582</u>	<u>-</u>	<u>23,755,598</u>
Less: accumulated depreciation	<u>(1,073,211)</u>	<u>(764,992)</u>	<u>-</u>	<u>(1,838,203)</u>
Property and equipment, net	<u>\$ 21,008,805</u>	<u>\$ 908,590</u>	<u>\$ -</u>	<u>\$ 21,917,395</u>
	<u>Balance, June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2018</u>
Website	\$ 17,030	\$ -	\$ -	\$ 17,030
Less: accumulated amortization	<u>(17,030)</u>	<u>-</u>	<u>-</u>	<u>(17,030)</u>
Intangible assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense for the years ended June 30, 2018 and 2017, was \$764,992 and \$707,851, respectively. Website amortization for the years ended June 30, 2018 and 2017, was \$0 and \$5,676, respectively.

6. CAPITAL LEASE

The District entered into a five-year noncancelable lease agreement in January 2016 for office equipment classified as a capital lease. The leased equipment has a recorded cost of \$7,056 with accumulated depreciation of \$3,410 and \$1,999 for the years ended June 30, 2018 and 2017, respectively.

Capital lease obligations at June 30, 2018, and the changes for the fiscal year then ended are as follows:

<u>Balance, June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2018</u>	<u>Due within one year</u>
<u>\$ 5,286</u>	<u>\$ -</u>	<u>\$ (1,415)</u>	<u>\$ 3,871</u>	<u>\$ 1,415</u>

Future minimum lease payments consist of the following as of June 30:

2019	\$ 1,415
2020	1,415
2021	<u>1,041</u>
Total minimum lease payments	<u>\$ 3,871</u>

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

7. LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2018:

	<u>Balance, June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2018</u>	<u>Due within one year</u>
Coal Severance Tax Loan \$	2,888,289	\$ -	\$ (118,810)	\$ 2,769,479	\$ 122,401
Water Pollution Control State Revolving Loan	9,209,000	-	(224,000)	8,985,000	115,000
Water System Revenue Bond, Series 2015	3,724,312	-	(149,737)	3,574,575	154,677
Special Assessment Bond, Series 2015	6,629,255	-	(144,288)	6,484,967	149,023
Big Sky Western Bank Loan	22,417	-	(5,694)	16,723	5,896
	<u>\$ 22,473,273</u>	<u>\$ -</u>	<u>\$ (642,529)</u>	<u>\$ 21,830,744</u>	<u>\$ 546,997</u>

Long-term debt obligations consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Obligation to the State of Montana, requires semi-annual payments of \$102,287 including interest at 3.0%, matures November 1, 2035.	\$ 2,769,479	\$ 2,888,289
Obligation to the State of Montana, requires estimated semi-annual payments of \$227,000, including interest and administrative fees totaling 3.50%, matures January 1, 2046.	8,985,000	9,209,000
Obligation to the USDA, requires monthly payments of \$22,380, including interest at 3.25%, matures September 23, 2035. The loan is secured by net revenues generated by the Water System. The loan is secured by a pledge of the water system's revenues and other agreements.	3,574,575	3,724,312
Obligation to the USDA, requires semi-annual payments of \$179,292, including interest at 3.25%, matures December 23, 2045. The loan is secured by the special assessment tax levy collected by Gallatin County on behalf of the District. The loan is secured by a pledge of the water system's revenues and property tax assessments.	6,484,967	6,629,255
Note payable to Big Sky Western Bank, requires monthly payments of \$532, including interest at 3.50%, matures March 15, 2021. The loan is secured by a vehicle.	16,723	22,417
	21,830,744	22,473,273
Less current portion	(546,997)	(456,802)
	<u>\$ 21,283,747</u>	<u>\$ 22,016,471</u>

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

7. LONG-TERM DEBT (Continued)

The required annual payments for debt are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 546,997	\$ 541,166	\$ 1,088,163
2020	679,891	612,514	1,292,405
2021	697,632	592,289	1,289,921
2022	713,490	571,628	1,285,118
2023	735,538	550,417	1,285,955
2024 to 2028	4,016,908	2,410,656	6,427,564
2029 to 2033	4,650,732	1,775,570	6,426,302
2034 to 2038	4,151,420	1,086,495	5,237,915
2039 to 2043	3,484,006	601,980	4,085,986
2044 to 2046	<u>2,154,130</u>	<u>115,828</u>	<u>2,269,958</u>
	<u>\$ 21,830,744</u>	<u>\$ 8,858,543</u>	<u>\$ 30,689,287</u>

8. COMPENSATED ABSENCES

All full-time employees accumulate vacation and sick leave hours in proportion to the hours they work. Employees earn annual leave at the rate of 10 days per year for each of their first 5 years of employment. Between 6 and 10 years of employment, they earn increasing rates up to 20 days per year, with a maximum of 20 days after 10 years of employment. There is no requirement that annual leave be taken. However, the maximum accumulation is two times the annual rate, determined at the end of the calendar year. At termination, employees are paid for any accumulated annual leave. Sick leave is earned at the rate of twelve days per year. There is no limit on the accumulation of sick leave. At termination, employees are paid for one-fourth of their accumulated sick leave.

The balance of compensated absences payable is included in payroll liabilities on the statement of net position. Changes in compensated absences during the year ended June 30, 2018, were as follows:

<u>Balance, June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2018</u>
<u>\$ 17,252</u>	<u>\$ 20,505</u>	<u>\$ (25,464)</u>	<u>\$ 12,293</u>

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

9. RETIREMENT PLANS

Beginning in fiscal year 2017, the District sponsors a Section 457 defined contribution plan. Employees are eligible to participate when they attain age 21 and complete one year of service. Participating employees may make contributions up to allowable limits. The District will match up to 6% of employee contributions, which are subject to vesting. Employer contributions totaled \$11,823 and \$5,976 for the years ended June 30, 2018 and 2017.

Beginning in fiscal year 2017, the District also sponsors a 401(a) money purchase plan. Employees are eligible to participate when they attain age 21 and complete one year of service. Participating employees are required to contribute 6.6% of gross wages. The District contributes 6.6% of employees' gross wages to the plan on the employee's behalf, which the employee is fully vested. The District also contributes an additional 2% of an employee's gross wages, which are subject to vesting. Employer contributions totaled \$29,821 and \$17,894 for the year ended June 30, 2018 and 2017.

10. SUBSEQUENT EVENTS

Date of Management Evaluation

Management has evaluated subsequent events through December 18, 2018, the date on which the financial statements were available to be issued.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**To the Board of Directors
Four Corners County Water and Sewer District
Bozeman, Montana**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Four Corners County Water and Sewer District ("the District"), as of and for the years ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 18, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be a material weakness, 2018-1.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated December 18, 2018.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Amatics CPA Group
Bozeman, Montana
December 18, 2018

FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
SCHEDULE OF CURRENT YEAR FINDINGS
June 30, 2018

The results of our tests disclosed the following internal control deficiency considered to be a material weakness, which was required to be reported under *Government Auditing Standards* as of June 30, 2018.

2018-1	Criteria:	In accordance with generally accepted accounting principles, the District should capitalize and depreciate developed-constructed water and sewer system infrastructure.
	Condition:	Developers construct water and sewer extensions and other infrastructure required to install and complete new construction projects and subdivisions within the District. After construction, this infrastructure and the responsibility for the maintenance is transferred to the District.
	Effect:	The District's infrastructure and contributed capital were understated by \$1,144,812.
	Cause:	The District does not have a process in place to track and report donated infrastructure.
	Recommendation:	The District should develop a process that allows for identification, tracking, and reporting of all donated infrastructure.

**FOUR CORNERS COUNTY WATER AND SEWER DISTRICT
STATUS OF PRIOR YEAR FINDINGS
June 30, 2018**

None noted during audit for the year ended June 30, 2017.